

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT  
PRICE ADJUSTMENT

Docket No. R2013-10

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO CHAIRMAN'S INFORMATION REQUEST NO. 7  
(November 1, 2013)

The Postal Service hereby files its responses to Chairman's Information Request No. 7, issued on October 28, 2013. Each question is stated verbatim, and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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1. Please describe the new Every Door Direct Mail – Commercial rate category. In particular, explain how the new rate category differs from Saturation Mail and Every Door Direct Mail – Retail. In addition, please provide the supporting workpapers used to develop the volumes for the new rate category presented in USPS-LR-R2013-10/2.

**RESPONSE:**

The Every Door Direct Mail – Commercial ('EDDM') rate category is Standard Mail with a Simplified Address which is entered at the BMEU. This category has been combined with other mail in the Standard Mail High Density and Saturation Flats/Parcels and Parcels product. EDDM-Retail is Standard Mail with a Simplified Address that is entered at the local Destinating Delivery Unit. For supporting workpapers on how volume was broken out separately for the EDDM – Commercial category, please see excel file *EDDM Commercial Data.xls*, filed with this response.

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2. Are the proposed Flats Sequencing System (FSS) Facility Discounts for Standard Mail, Periodicals, and Bound Printed Matter (BPM) workshare discounts? Please explain.

**RESPONSE:**

For Standard Mail, the only discount proposed for FSS preparation is for the flats pieces prepared in FSS scheme bundles on FSS Scheme pallets dropped at a destination facility (most likely SCF) where the FSS equipment is located. This discount is included as a workshare discount in Attachment B to the September 26 Notice in this docket; see the corrected Attachment B filed with this response. Both the cost avoidance and the discount are calculated using Origin entry. The cost avoidance is 5 cents while the discount is 4.4 cents, a passthrough of 88 percent.

For Periodicals the only discount proposed for FSS preparation is for flats pieces prepared in FSS Scheme bundles on FSS Scheme pallets dropped at a destination facility (most likely an SCF) where the FSS equipment is located. This discount is in the form of a zero price for the scheme pallets described in the previous sentence. In Periodicals the pallet prices are determined using the bottom-up costs. A proxy for the DFSS pallets cost is the cost for DSCF pallets which is \$13.285. The price as percent of cost calculations are being added to page 5 of *ChIR7.Response.Attachment B.xls*, which is being filed with this response.

There are no discounts for FSS preparation in Bound Printed Matter.

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3. Regarding the FSS Facility Discounts for Standard Mail, Periodicals and BPM, please:
- a. Provide all data, economic analyses, and other information relied on to justify the discounts.
  - b. Provide the rationale for setting the Standard Mail FSS prices equal to the rates for 5-digit Flats, High Density flats, High Density Plus flats and Carrier Route Flats.
  - c. Discuss the rationale for setting the Periodicals FSS prices equal to the destination sectional center facility prices.

**RESPONSE:**

- a. Please see the response to question 2.
- b. In Docket No. R2013-10, the Standard Mail FSS prices were set equal to the rates for 5-Digit Flats, High Density flats, High Density Plus flats, and Carrier Route flats for several reasons. First, there is no cost difference between pieces in an FSS bundle, regardless of whether they pay the 5-digit, High Density, High Density Plus or Carrier Route flats prices. Second, this pricing would ease the transition to preparing FSS bundles under the newly required preparation.
- c. Most FSS machines are located in SCF facilities.

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4. The Postal Service has proposed the addition of Zone 9 prices for Periodicals, BPM Flats, and BPM Parcels.
- a. Please provide a narrative explaining the new Zone 9 prices and the rationale for developing the new prices.
  - b. Please explain who will be likely to pay Zone 9 prices.
  - c. Please confirm that this change was not included in the Postal Service's description of Mail Classification Schedule (MCS) changes. If not confirmed, please provide a citation to the discussion of this MCS change.

**RESPONSE:**

- a-b. The addition of Zone 9 for market dominant products, including Periodicals, BPM Flats and BPM Parcels, was a programming necessity only. Zone 9 prices will be the same as Zone 8 prices for these products. No unique Zone 9 pricing is applied to Periodicals, BPM Flats or BPM Parcels.
- c. Confirmed that this limited change was inadvertently omitted from the description of classification changes in the Notice of Market Dominant changes.

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5. Please refer to the response to CHIR No. 1, question 2, CHIR.1.Q.2.Attach.B.Workshare.xls, tab 'Media Mail & Library Mail' and confirm that for both Media Mail and Library Mail, the Avoided Costs of Basic and 5-digit are transposed. Please provide a revised version of the spreadsheet, and also a revised discussion of the worksharing passthroughs for this product, including a justification for setting the discount for Basic presort in excess of avoided costs, and for setting the discount for 5-digit presort substantially below the avoided cost. See 39 C.F.R. § 301012(b)(6).

**RESPONSE:**

Confirmed. Please see page 15 of the attached file

*ChIR5.Response.Attachment B.xls*, filed with this response. Although the workshare passthroughs are somewhat different than previously reported, the justifications remain the same. The revised justification discussion follows with the changes in bold:

*"The workshare discount passthroughs for Media Mail and Library Mail 5-digit presort are **156.7** percent and **150.0** percent respectively. These 5-digit presort discounts are above 100 percent primarily because of a change in costing methodology approved by the Commission in Docket No. RM2012-1<sup>1</sup> that shifted a large amount of costs away from 5-digit presort and toward basic presort. Bringing the 5-digit presort all the way down to 100 percent immediately would create an enormous price shock for this group of mailers, so the Postal Service intends to bring the workshare discount down in future price adjustments*

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<sup>1</sup> See Docket No. RM2012-1, Order No 1053, at 53 (December 16, 2011).

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*gradually rather than all at once. Furthermore, the discount is provided in connection with subclasses of mail consisting exclusively of mail matter of educational, cultural, scientific, or informational value. The educational, cultural, scientific, and informational value exception also applies to Basic Presort discounts, which were left at **58.2** percent for Media Mail and **55.2** percent for Library Mail."*

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